



PASADENA WATER AND POWER

March 15, 2018

Submitted Electronically

Ms. Rajinder Sahota  
California Air Resources Board  
1001 I Street  
Sacramento, CA 95814

Subject: City of Pasadena comments on February 2018 Cap-and-Trade Preliminary Discussion Draft and Preliminary Cost Containment Concept Paper

The City of Pasadena Water and Power ("PWP") appreciates the opportunity to provide comments to the California Air Resources Board ("CARB") on the Preliminary Discussion Draft ("PDD") of potential changes for the Cap-and-Trade Regulation ("Regulation") and Cost Containment Concept Paper ("Concept Paper").

PWP is a publicly owned utility of the City of Pasadena, with a service population of over 141,000 residents. We are committed to providing safe and reliable water and power services with superior customer service at reasonable rates.

The City of Pasadena has shown an on-going commitment to addressing climate change, including an adopted Renewable Portfolio Standard Goal of 40% of retail energy sales by 2020. Additionally, the City of Pasadena has adopted an impressive 60% reduction in greenhouse gases ("GHG") from our own 1990 GHG levels by 2030.

PWP's comments related to the Cap-and-Trade discussion draft are focused on the proposed areas below:

- 1) Consignment of Allocated Allowances
- 2) §95892 (d) (3) (A), (D)-(E): Limitations on the Use of Auction Proceeds and Allowance Value.
  - a. §95892 (d)(3)(A): Renewable Energy or Integration of Renewable Energy
  - b. §95892 (d)(3)(D): Administrative Costs

- c. §95892 (d) (3) (E): Demonstration of quantifiable GHG emission reductions.
- 3) §95892 (e)(3): Reporting on the use of Auction Proceeds
- 4) Preliminary Concept Paper – Establishment of the Containment Points and Price Ceiling

### **Consignment of Allocated Allowances:**

PWP appreciates CARB's decision not to require the full consignment of CARB allocated allowances for Publicly Owned Utilities ("POUs"), as a policy shift of this magnitude would produce a considerable financial burden to the electricity ratepayers. POUs differ from Investor Owned Utilities ("IOUs") in that we are vertically integrated, and therefore operate our own generation to serve our customers. It is critical that POUs maintain our own compliance flexibility, as long as the outcome is consistent with statewide climate goals.

### **Limitations on the Use of Auction Proceeds and Allowance Value:**

§95892 (d)(3)(A)-(B): Renewable Energy or Integration of Renewable Energy

PWP appreciates CARB's intent to simplify and define allowable uses of proceeds from the sale of CARB allocated allowances at auction, but the approaches described are too restrictive. We believe the allowable use of auction proceeds for the "construction or purchase of generation from eligible renewable energy resources" and energy efficiency efforts are appropriate. However, due to the word, "must", other uses not delineated in the provision, would, in effect, be prohibited.

Allowable uses should also include the following:

- 1) The use of auction proceeds to fund the transmission and distribution of zero emission resources including eligible renewable energy resources.
- 2) The expansion of the City of Pasadena's infrastructure, necessary for the conversion of the electrification of the transportation sector.

We believe that the funding of transmission and distribution for the delivery of zero emitting resources including eligible renewable resources and the electrification infrastructure build-up, should be included, as in both instances, the aforementioned uses further the goals of AB 32 and are consistent with current regulatory requirements.

PWP's suggested text for §95892 (d)(3) would simply be as follows:

*Allocated allowance auction proceeds must be used to reduce greenhouse gas emissions or returned to ratepayers, including, but not limited to, one or more of the following approaches:*

### **Administrative Costs:**

#### **§95892 (d) (3) (D): Administrative Costs**

PWP appreciates CARB's decision to allow administrative costs to be included in the list. When executing contracts for renewable procurement, POUs may incur additional costs in the performance of contract negotiation and execution, and other unforeseen costs.

### **Demonstration of quantifiable GHG emission reductions:**

#### **§95892 (d) (3) (E): Quantifiable GHG emission reductions**

PWP understands that allocated allowance auction proceeds must be used for the benefit of retail electricity ratepayers, and in a manner consistent with the furtherance of AB 32 goals. However, adding a requirement to demonstrate GHG reductions raises concerns. The PDD does not provide a clear understanding of the appropriate methodology necessary to demonstrate quantifiable reductions, as there are numerous approaches to achieving GHG reductions. For example, energy efficiency programs, or electrification infrastructure build out, both further AB 32 goals, so a suitable methodology rationale should consider the various approaches. Electrification efforts will increase energy usage and may increase GHG emissions. However, GHG emissions associated with electrification are far below gasoline. There needs to be an exception for such cases. PWP looks forward to working closely with CARB staff on an acceptable methodology.

### **Reporting on the use of Auction Proceeds:**

#### **1) §95892 (e)(3): Reporting on the use of Auction Proceeds**

PWP agrees that reporting on the use of auction proceeds is an important requirement of the Cap-and-Trade regulation. With regard to quantifying GHG emission reductions, this requirement will not only add to the reporting administrative burden, but also may confuse covered entities, and CARB staff, as no standard methodology or rate is defined. Each covered entity has various governance structures. A flexible methodology would be the best approach to quantifying GHG emission reductions to accommodate variations in the allowable uses of proceeds.

### **Prohibited Use of Allocated Allowance Value:**

CARB staff has advised that they are evaluating whether purchased allowances with allocated proceeds are benefiting ratepayers, and they have requested that stakeholders provide feedback on the possibility of prohibiting the purchase of allowances using allocated allowance proceeds. The current Regulation, §95892 (d) (5), already prohibits the use of such allowances to meet compliance obligations for electricity sold into the California Independent System Operator ("CAISO"), so adding an additional prohibition is redundant. As part of the verification requirements, verification bodies already verify

CAISO sales under the Mandatory Reporting Regulation. PWP believes that there is no need to provide additional prohibitions.

**Establishment of the Containment Points and Price Ceiling:**

PWP believes that the preliminary structure for the New Post-2020 Reserve is valid. The two price containment points at levels below the price ceiling is equitable and straightforward. With regard to the price ceiling, PWP requests that you continue to work with stakeholders to develop an appropriate ceiling price. The current ceiling price seems excessive and inconsistent with market conditions.

**Conclusion**

PWP appreciates the opportunity to provide comments on the PDD. Thank you for your consideration. Should you have any questions, please feel free to contact Badia Harrell at (626) 744-7918

Sincerely,



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GSB/BH